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John Labatt Limited

1955

POUR L'ANNÉE TERMINÉE LE 30 SE

ANNUEL
RAPPORT

127^{ième}



127th ANNUAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30th.

1955

John Labatt Limited

LONDON • CANADA

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ANNUAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30

1955

Annual General Meeting of Shareholders

JANUARY 20, 1956

The Directors' Report

Directors

HUGH F. LABATT.....	London, Ontario
W. H. R. JARVIS.....	New York City, New York, U.S.A.
V. P. CRONYN.....	London, Ontario
R. G. IVEY, Q.C.....	London, Ontario
HUGH A. MACKENZIE.....	London, Ontario
A. S. GRAYDON.....	London, Ontario
ARTHUR SULLIVAN, Q.C.....	Winnipeg, Manitoba
LOUIS P. GÉLINAS.....	Montreal, Quebec

Officers

HUGH F. LABATT.....	Chairman of the Board and President
HUGH A. MACKENZIE.....	Executive Vice-President
A. S. GRAYDON.....	Secretary
J. H. MOORE.....	Treasurer

Solicitors

Ivey, Livermore & Dowler, London

Auditors

Clarkson, Gordon & Co., London

Transfer Agents

The Canada Trust Company, Toronto and Winnipeg, The Royal Trust Company, Montreal, Vancouver and Halifax, and The Bank of Montreal Trust Company, New York, U.S.A.

Registrars

The Royal Trust Company, Toronto, Winnipeg and Halifax, The Bankers' Trust Company, Montreal, The Canada Trust Company, Vancouver, and The Bank of Montreal Trust Company, New York, U.S.A.

TO THE SHAREHOLDERS:

Your Directors are pleased to present for the year ended September 30, 1955, this 127th Annual Report of the operations of John Labatt Limited, including its wholly-owned subsidiaries, Shea's Winnipeg Brewery Limited in Manitoba and Labatt's Brewery Limited in Quebec, as well as its partly-owned subsidiaries.

Conditions in the Industry

A high level of employment throughout the country and seasonably warm weather during the summer months contributed to a slight increase in industry sales during the year.

In Ontario, your Company's principal market, the acceleration of the taste trend from ale to lager beer resulted in greater emphasis on this latter aspect of the industry's operations. In this same market the bringing into operation of additional production capacity and the introduction of new products made for extremely keen sales competition and consequently a sharp rise in selling expenses. A similar situation prevailed in Quebec.

In general, other industry costs tended to remain unchanged.

In Manitoba the Government awaited the Bracken Commission's recommendations regarding the manufacture, sale, distribution and consumption of alcoholic beverages in that province, and the ultimate effect on the brewing industry of the inquiry remains a matter of conjecture.

Your Company's Position

Taking advantage of the factors responsible for the industry's collective gain, your Company for the fifth consecutive year increased its sales to an all-time high. Achieving this success in the face of vigorous competition in central Canada added to our marketing costs. This was particularly true in Quebec where significant progress was made in the long-term development of the market potential.

Highlights of the Financial Statements

Comparison of Financial Position

	1955	1954	1953
Shareholders' Equity	\$20,682,143	\$18,437,840	\$11,426,511
Debentures and Mortgages	8,512,500	6,737,544	4,500,000
Fixed Assets	26,937,536	26,467,112	17,144,414
Accumulated Depreciation	10,275,344	10,058,585	6,490,184
Working Capital	6,738,135	5,642,362	4,189,965

Comparison of Earnings Per Share

	1955	1954	1953
Net Profits	2.43	2.29	1.90
Depreciation	1.31	1.23	1.24
Cash Income	3.74	3.52	3.14
Income Tax	2.09	2.12	1.89
Cash Income before Income Tax	5.83	5.64	5.03
Number of Shares Outstanding	1,254,995	1,254,995	900,000

During the past year your Directors approved the redemption of all outstanding debentures and mortgages and the sale of new 4% serial and sinking fund debentures totalling \$8,500,000. The Board also approved the sale and lease-back of the Shea's Winnipeg Brewery Limited plant for \$2,500,000. Net proceeds of these transactions were added to the general corporate funds. The Company's strong working capital position will enable it to finance the new Montreal brewery through to completion and meet any contingency that might arise out of the increasingly competitive nature of our major markets.

Operating profits for 1955 were greater than those of any previous year. Contributing to this increase were the record sales volume and further reductions in production costs brought about by greater efficiency in the purchasing and processing of materials. Off-setting these factors to some degree were the higher marketing costs already mentioned.

During the post-war years, your Company's growth and expansion has anticipated and paralleled that of Canada. Modern production facilities have been acquired and constructed to meet all the potential demands of the major Ontario, Manitoba, Quebec and other markets, and a strong organization has been built up to use this plant capacity to the greatest advantage. This expansion and growth, which has protected and enhanced our competitive position, has been financed through retained earnings, the issue of additional shares and funded debt.

Your Directors are of the opinion that the Company is in a strong financial position and have therefore approved an increase in the quarterly dividend from 25 to 30 cents per share, which is at the rate of \$1.20 per annum.

Production Facilities

The modernization and expansion programs at the London and Toronto plants were completed during the previous year and there were no major undertakings at either brewery in 1955.

Construction was completed during the year of additional fermenting and storage capacity at Shea's Winnipeg Brewery Limited.

Satisfactory progress was made on the new Montreal brewery. Construction will be completed and the plant brought into production during 1956.

Research

Reductions in certain production costs have been achieved as a result of studies and recommendations made by our Company's Research and Development Department. Enlarged during the year, this department is now undertaking a broader program of research having to do with product quality, production techniques, materials handling, packaging and so on. It is expected that further improvements and economies will be made.

In co-operation with others in the brewing industry, your Company, through the Barley Improvement Institute, is supporting the development of improved malting barleys. Success in this endeavour will benefit not only our own industry and Company but the Canadian agricultural community as well.

Personnel

Two new Directors were welcomed to the Board during the year 1955, Arthur Sullivan, Q.C., LL.D., Chairman of the Board, Shea's Winnipeg Brewery Limited, and Louis P. Gélinas, President, Geoffrion, Robert and Gélinas Inc., Montreal investment dealers. Their sound knowledge of Manitoba and Quebec business affairs has already proved of great value in your Company's operations.

Several administrative changes were made because of the Company's growth and expansion. Hugh A. Mackenzie, formerly Vice-President and General Manager, was named Executive Vice-President. W. L. Shortreed, formerly Assistant General Manager and Secretary, was transferred from London to Montreal as General Manager of the new subsidiary, Labatt's Brewery Limited. A. S. Graydon, a Director and Export Sales Manager, assumed in addition the duties of Secretary. John P. Labatt was appointed Assistant to the President and is the fourth John Labatt to participate in the affairs of the 127-year-old Company. N. E. Hardy was named General Manager (Toronto Division).

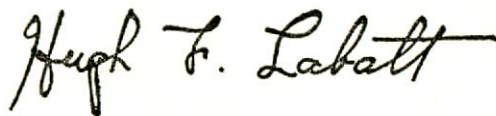
As of September 30, 1955, the Company was owned by 5,184 shareholders. The Directors greatly appreciate their interest and support during the past year.

The progress made by your Company and summarized in this report would not have been possible without the fine co-operation and real contributions of all officers, employees and others associated with the Labatt organization. Your Directors hereby gratefully acknowledge the assistance of everyone connected with the Head Office, London Plant, Ontario Sales Department, Toronto Division, Shea's Winnipeg Brewery Limited, Labatt's Brewery Limited and its agents, and Labatt Importers Inc. and O'Donnell Importing Company in the United States.

The Outlook

Your Directors are confident that the future will bring even greater satisfaction than the past. Population trends indicate an ever-increasing Canadian market and your Company is now well prepared to maintain and improve its position among the leaders in an industry which can look to mounting sales in the years ahead. With the completion in 1956 of the new Montreal plant, one of the world's most modern breweries, we will have adequate and unsurpassed production facilities to meet the immediate demands of our Ontario, Quebec and other markets, and this plant can be readily and economically expanded if additional capacity is required to satisfy future needs. Reference has already been made to the Company's present financial and organizational strength. Additionally, the uniform excellence of your Company's products is now firmly established. Having anticipated and readied ourselves for the opportunities which lie before us, we are looking forward to further progress and achievements.

By order of the Board of Directors,



Chairman and President.



Executive Vice-President.

November 17, 1955

MONTREAL, TORONTO, HAMILTON
LONDON, WINNIPEG, REGINA
CALGARY, VANCOUVER

ARTHUR YOUNG, CLARKSON, GORDON & CO.
ACCOUNTANTS AND AUDITORS
OFFICES IN PRINCIPAL CITIES OF U.S.A.

Clarkson, Gordon & Co.
Chartered Accountants

291 DUNDAS STREET

London
CANADA

AUDITORS' REPORT

To the Shareholders of
John Labatt Limited.

We have examined the consolidated balance sheet of John Labatt Limited and its wholly-owned subsidiaries as at September 30, 1955 and the consolidated statements of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at September 30, 1955 and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies.

As required by Section 118 of The Companies Act, Canada, we report that profits of partly-owned subsidiary companies for the year ended September 30, 1955 have been included in the accompanying statement of consolidated profit and loss only to the extent of dividends received from such subsidiaries during the year.

London, Canada.
November 8, 1955.

Clarkson, Gordon & Co.
Chartered Accountants

Consolidated Balance Sheet

JOHN LABATT LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARIES

(Incorporated under the Laws of Canada)

AS AT SEPTEMBER 30, 1955

(with comparative amounts as at September 30, 1954)

ASSETS

	1955	1954
CURRENT:		
Cash.....	\$ 1,603,151	\$ 2,170,053
Marketable securities and accrued interest—at cost which is approximately market value.....	4,017,078	1,916,749
Accounts receivable less allowance for doubtful accounts.....	1,572,809	1,469,292
Inventories as determined and certified by the management and valued as set out in Note 1.....	4,021,067	4,128,255
Prepaid expenses.....	254,932	278,076
	<u>\$ 11,469,037</u>	<u>\$ 9,962,425</u>

INVESTMENT IN PARTLY-OWNED SUBSIDIARIES AT COST LESS AMOUNTS WRITTEN OFF.....	\$ 1,394,980	\$ 1,317,150
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FIXED AT COST (NOTE 2):

Land.....	\$ 1,687,722	\$ 1,769,528
Buildings.....	15,148,629	14,695,851
Machinery and equipment.....	8,600,735	8,627,256
Trucks and automobiles.....	1,351,652	1,374,477
Leasehold improvements.....	148,798	
	<u>\$ 26,937,536</u>	<u>\$26,467,112</u>
Less accumulated depreciation and amortization.....	10,275,344	10,058,585
	<u>\$ 16,662,192</u>	<u>\$16,408,527</u>

MARKETABLE SECURITIES SET ASIDE FOR COMPLETION OF PLANT ADDITIONS.....	\$ 2,500,000	
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MORTGAGES, LOANS AND ADVANCES LESS ALLOWANCE FOR LOSSES.....	\$ 1,468,336	\$ 1,388,964
	<u>\$ 33,494,545</u>	<u>\$29,077,066</u>

LIABILITIES

	1955	1954
CURRENT:		
Accounts payable and accrued charges.....	\$ 1,593,179	\$ 1,378,887
Dividend payable October 1.....	313,749	313,749
Estimated taxes payable.....	2,392,974	2,209,046
Debenture and mortgage principal due within one year.....	431,000	418,381
	<u>\$ 4,730,902</u>	<u>\$ 4,320,063</u>
DEBENTURES AND MORTGAGES (NOTE 3).....	<u>\$ 8,081,500</u>	<u>\$ 6,319,163</u>

CAPITAL AND SURPLUS:

Capital—		
Authorized—1,500,000 common shares without par value		
Issued—1,254,995 common shares.....	\$ 5,798,048	\$ 5,798,048
Earned surplus (NOTE 4).....	14,884,095	12,639,792
	<u>\$ 20,682,143</u>	<u>\$18,437,840</u>

On behalf of the Board

Hugh F. Labatt,

Director

Hugh A. Mackenzie,

Director

\$ 33,494,545 \$29,077,066

The attached "Notes to the consolidated financial statements" should be read with this statement.

JOHN LABATT LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARIES

Statement of Consolidated Profit and Loss

FOR THE YEAR ENDED SEPTEMBER 30, 1955
(with comparative amounts for 1954)

	1955	1954
Consolidated profit before deducting the following charges..	\$ 7,201,800	\$ 7,057,054
Deduct:		
Depreciation and amortization	\$ 1,652,304	\$ 1,546,912
Interest on debentures and mortgages.....	300,397	293,292
	<u>\$ 1,952,701</u>	<u>\$ 1,840,204</u>
	\$ 5,249,099	\$ 5,216,850
Add:		
Dividends received from partly-owned subsidiaries (less amount written off investment in 1954).....	291,050	268,702
Income from other investments.....	121,376	56,659
Consolidated profit before taxes on income.....	\$ 5,661,525	\$ 5,542,211
Estimated taxes on income.....	2,617,000	2,665,000
Consolidated net profit.....	<u>\$ 3,044,525</u>	<u>\$ 2,877,211</u>

Note: The following expenses incurred by the company have been deducted in arriving at consolidated profits:

Directors' fees	\$ 7,125	\$ 6,000
Executive remuneration and legal fees.....	160,573	149,348

Statement of Consolidated Earned Surplus

FOR THE YEAR ENDED SEPTEMBER 30, 1955
(with comparative amounts for 1954)

	1955	1954
Balance at beginning of year	\$ 12,639,792	\$ 10,686,511
Add:		
Consolidated net profit.....	3,044,525	2,877,211
Profit on disposal of fixed assets of a subsidiary company (after provision for estimated income tax of \$110,000 thereon)...	\$ 1,412,581	
Less reduction of value of fixed assets of subsidiary companies (note 2).....	<u>698,967</u>	<u>713,614</u>
Profit on sale of investments (net).....		90,581
Reserve for redemption of containers restored to surplus.....		400,000
	<u>\$ 16,397,931</u>	<u>\$ 14,054,303</u>
Deduct:		
Expenses in connection with the redemption and sale of debentures.....	\$ 258,841	
Expenses in connection with the sale of debentures and shares and expenses in connection with the acquisition of a subsidiary company		\$ 161,621
Dividends paid or declared.....	1,254,995	1,252,890
	<u>\$ 1,513,836</u>	<u>\$ 1,414,511</u>
Balance at end of year.....	<u>\$ 14,884,095</u>	<u>\$ 12,639,792</u>

JOHN LABATT LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 1955

NOTE 1—Inventories

Inventories at September 30, 1955 and 1954 are valued as follows:

	1955	1954
Beer and ale—at the lower of cost or market.....	\$ 2,800,234	\$ 2,801,378
Raw materials and supplies—at the lower of cost or market.....	500,911	541,520
Bottles—at redemption price.....	418,649	444,444
Kegs—at cost less amounts written off.....	301,273	340,913
	<u>\$ 4,021,067</u>	<u>\$ 4,128,255</u>

NOTE 2—Fixed assets

Consolidated fixed assets of Shea's Winnipeg Brewery Limited (a wholly-owned subsidiary acquired in 1954) are included in the 1954 consolidated balance sheet at their effective cost to John Labatt Limited which was in excess of their book values in the accounts of the respective companies. After the sale of certain of these fixed assets during 1955 the remaining assets were reduced to their book values as shown by the accounts of the respective companies and are included in the consolidated balance sheet as at September 30, 1955 at these values. The excess value of \$698,967 was offset against the capital profit realized on the sale of other assets.

Depreciation of fixed assets has been included in the attached statement of consolidated profit and loss based on the effective cost to John Labatt Limited in 1954 and on their book values as shown by the accounts of the respective companies in 1955.

NOTE 3—Debentures and Mortgages

Particulars of debentures and mortgages at September 30, 1955 and 1954 are as follows:

	1955	1954
Authorized.....(a)	\$ 8,500,000	\$ 10,000,000
Outstanding:		
3¼ %—5 % debentures maturing December 1, 1954 to December 1, 1973 inclusive (repaid in 1955).....		(b) \$ 5,757,000
4 % serial debentures series "A" to mature in equal annual instalments of \$425,000 each on March 1, 1956 to 1965 inclusive.....	\$ 4,250,000	
4 % sinking fund debentures series "A" to mature March 1, 1975 (sinking fund payment of \$425,000 per annum commencing 1966).....	4,250,000	
Mortgages of subsidiaries of Shea's Winnipeg Brewery Limited—principal outstanding	12,500	980,544
	<u>\$ 8,512,500</u>	<u>\$ 6,737,544</u>

Forward—

	1955	1954
Brought forward.....	\$ 8,512,500	\$ 6,737,544
Deduct principal due within one year:		
3¼ %—5 % debentures.....	\$ 318,000	
4 % Series "A" serial debentures—March 1.....	\$ 425,000	
Mortgages.....	6,000	100,381
	\$ 431,000	\$ 418,381
	\$ 8,081,500	\$ 6,319,163

- NOTES: (a) Under the provisions of the trust deed entered into on February 15, 1955, additional debentures may be authorized from time to time in an unlimited amount provided certain conditions are complied with.
- (b) All of the debentures outstanding at September 30, 1954 were repaid during the year and \$8,500,000 of new series "A" serial and sinking fund debentures were issued.

NOTE 4—Earned surplus

The trust indenture relating to the debentures contains a provision whereby dividends may not be declared or paid which would reduce consolidated net current assets (as therein defined) below a certain level. At September 30, 1955 the consolidated net current assets (as so defined) were substantially in excess of such requirements.

NOTE 5—Long term lease

Under a lease entered into during the past year in respect of the occupancy of premises sold by a subsidiary company, an annual rental of approximately \$287,000 is payable for ten years and substantially reduced rentals are payable under renewal options covering additional periods totalling eight years.

Reporte.....	\$ 8,512,500	\$ 6,737,544
1955		1954
Moins échéant durant l'année:		
Debentures 3¼ %—5 %.....	\$ 318,000	
Debentures en série 4 % de la catégorie "A"—1er mars.....	\$ 425,000	
Hypothèques.....	6,000	100,381
	\$ 431,000	\$ 418,381
	\$ 8,081,500	\$ 6,319,163

Notes: (a) Suivant les dispositions de l'acte de fiducie contracté le 15 février 1955, des débentures additionnelles peuvent être autorisées de temps à autre d'un montant non-limité pourvu que certaines conditions soient respectées.

(b) Toutes les débentures en circulation au 30

septembre 1954 furent remboursées au cours de l'année et \$8,500,000 de la nouvelle catégorie "A" des débentures en série à fonds d'amortissement furent émises.

NOTE 4—Surplus gagné

Le contrat de fiducie relatif aux débentures contient une disposition par laquelle des dividendes ne peuvent être déclarés ou payés s'ils réduisent les disponibilités nettes consolidées (celles que définit) à un montant moindre que prévu. Au 30 septembre 1955, les disponibilités nettes consolidées (celles qu'ainsi définit) étaient considérablement supérieures à ces exigences.

NOTE 5—Baill à long terme

Suivant un bail contracté durant l'année dernière à l'égard de l'occupation de locaux vendus par une filiale, un loyer annuel d'environ \$287,000 est exigible durant 10 ans et des loyers considérablement réduits sont exigibles suivant des options de renouvellement pour une période additionnelle de huit ans.